

Proposed ASU-Scottsdale Center for New Technology and Innovation

**Presentation to Scottsdale City Council
July 6, 2004**

Economic Vitality Dept.

Purpose

- Final information review on the proposal to create the “ASU-Scottsdale Center for New Technology and Innovation” on the former Los Arcos site.
- One additional opportunity for public testimony and discussion of questions raised by the Council and the public.
- Council action on the proposed transaction.

Proposal

- The City has been approached by ASU about the potential of developing the former Los Arcos Mall site into a major technology, innovation, and creativity center. This site would contain about 1.2 million sq.ft., and could support as many as 4,000 relatively high paying jobs at buildout.

Proposal

- In order to facilitate this development, the City has been asked to purchase the Los Arcos site for \$41.5 million, enter into a long-term lease with the Arizona State University Foundation, and provide up to \$45 million in site related infrastructure. The transaction must be approved by the City no later than 7/9, and close by 7/30.

Key Terms and Conditions of the Proposed Los Arcos Land Purchase by the City

Purchase Agreement

- The ASUF has negotiated a purchase agreement with The Ellman Companies to acquire the former Los Arcos Mall site for \$41.5 million, subject to approval by the Council of the purchase and lease by 7/9, and close of escrow by 7/30. The site will be conveyed to the ASUF free and clear of all existing liens, and conveyed “as-is”.

Key Terms and Conditions of the Proposed Lease between the City and ASUF

1. Parties: City will own the land and enter into a ground lease with the Arizona State University Foundation Scottsdale L.L.C (ASUF)
2. Leased Land: The City will lease to ASUF approximately 37 of the 42 acres of the former Los Arcos Mall site. The City will retain about 2 acres along Scts. Rd. for future development, and 3 acres east of 74th St.
3. Name: “ASU-Scottsdale Center for New Technology and Innovation”

4. Lease Term: 99 year initial lease term, with one 99 year option to extend.
5. Development: At buildout, the Center is anticipated to have approx. 1.2 mil. sq.ft. of space (about 90% office); 3,000-4,000 parking spaces (primarily structured); and open space/public plazas. Total estimated cost to develop will be \$250-300 million.
6. Development Standards: The maximum permitted FAR is 0.8; the maximum permitted height will be 60'.

7. City Approvals: The development will be subject to all applicable City zoning, design review, and permitting processes. There will be no fee waivers or tax abatements by the City for this project.
8. City Expenditures: City will provide site infrastructure up to \$45 million, including demolition, grading, environmental remediation, streets, utilities, parking structures, public art and plazas, etc.
9. ASUF Expenditures: ASUF is responsible for the cost of constructing all the buildings, and for the Center's operation/maintenance.

10. Minimum Development Schedule:

By 7/05: City entitlements complete and site infrastructure construction commenced

By 8/06: Construction must begin on at least 150,000 sq.ft.

By 8/07: Construction must be complete on at least 150,000 sq.ft.

By 8/10: Construction must be complete on at least another 150,000 sq.ft.

Every 3 years thereafter: Construction of at least another 150,000 sq.ft. must be completed

Complete buildout is required by 2028; current projections anticipate buildout by 2015.

11. Nature of Center: At least 51% of the office leaseable area (excluding retail) of the first 150k must be occupied by tenants involved in technology, innovation, or creativity. Thereafter ASUF is required to maintain this character until at least 1 mil. sq.ft. are built or the year 2025, whichever is first.
12. Remedies for Non-Performance: If ASUF fails to meet the development timetable or fails to maintain the nature of the center, the City has the right to use the undeveloped remainder of the property.

13. Rent Payments: ASUF will pay to the City, on an annual basis, a payment equal to 50% of the net revenues generated from this project up to a maximum cap of \$81.4 million (allocable share of \$86.5 mil. in land and infrastructure costs, exclusive of 5 acres retained by the City, but not debt service costs). Net revenues are gross revenues minus project related operation/maintenance expenses, building debt service payments, and capital expenditure/tenant improvement reserve funds. The City and ASUF will share equally in any refinance or sale proceeds.

City Financing

Paying for Land

- \$41.5 million land acquisition, plus closing costs, payable prior to 7/30/04
- Proposed approach: Issue \$42 million in Municipal Property Corp. (MPC) bonds, with 30 year amortization. These bonds are backed by the City's excise tax, rather than a specific revenue source. \$42 mil. would cover closing costs and bond issuance costs. The bonds may be issued in the future with a Reimbursement Resolution.
- MPC Board has met and approved this plan

Paying for Infrastructure

- Up to \$45 million for site infrastructure
- Spread out over several years:
 - \$10-15 million within first 1-2 years (for demolition, grading, streets, utilities, etc.) This could be paid for on a “pay-as-you-go” basis out of City reserves (i.e. Economic Investment Fund, capital contingency, etc.)
 - \$30-35 million 4+ years out (for building the structured parking). This could be paid for either through planned CIP funds, or through additional MPC bonds, if necessary.

Total City Obligations

● Land Acquisition:	\$42 million
● Infrastructure:	\$45 million (cap)
● Est. debt service:	<u>\$33-43 million</u>
Total:	\$120-130 million

Summary of Key Issues

1. Process -- timing, use of emergency clause
2. Lack of direct retail & services on site – will this induce these to locate in area
3. Land acquisition price
4. Fiscal Impact -- will this create the assumed benefits (direct & indirect) to justify the City investment

Schedule

- To date:
 - Council meetings were held on 6/21 & 6/28
 - Open House was held on 6/24
 - Information posted on web site, in media, etc.
- If Council approves, future actions:
 - Close on transaction by end of July
 - Demolition contract to Council at 8/30 meeting
 - Site planning begins immediately
 - Anticipate construction starting within 1 year

Proposed Council Actions

- 1. Authorize the real estate purchase contract No. 2004-121-COS for acquisition of the Los Arcos site from the ASUF for \$41.5 mil., with an Emergency Clause**
- 2. Authorize agreement No. 2004-120-COS with MPC to fund purchase of land, with an Emergency Clause**
- 3. Authorize ground lease contract No. 2004-119-COS with ASUF for the Center, with an Emergency Clause**
- 4. Approve capital budget transfers and expenditures in the Adopted 04/05 Budget for property purchase**
- 5. Approve capital budget transfer from the Adopted 04/05 Economic Investment Fund Budget for up to \$9 mil. to begin phase 1 demolition/infrastructure for the site**
- 6. Consider request by Vice Mayor to establish a formal task force to help plan 5 ac. development**